Commentary

The Next Step for Contracting Out Local Services in Denmark

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The article “Contracting Out Local Services: A Tale of Technical and Social Services” by Ole Helby Petersen, Kurt Houlberg, and Lasse Ring Christensen explains very well the factors that determine the extent to which Danish municipalities choose to contract out tasks. The conclusions of the article can be recognized in Roskilde Municipality. With 85,000 inhabitants, Roskilde is one of Denmark’s largest municipalities (ranking 14 out of 98) and one of the more well-off municipalities. According to these two factors, Roskilde should contract out more services than the average Danish municipality. This should also be the case given that Roskilde has an IEC (indicator for exposure to competition) of 27.0 compared with the national average of 25.9 in 2013.

However, the picture is a little varied. In the field of social services and labor market activities, Roskilde Municipality has an IEC of 26.0 compared with the national average of 24.2. Thus, Roskilde confirms the conclusions of the article as far as wealthy municipalities contracting out more social service tasks than less wealthy municipalities is concerned. But for the two other factors, Roskilde goes against the conclusions of the article. As mentioned, Roskilde is one of the larger Danish municipalities and, since 2007, has been led politically by the Danish Social Democrats. These are both factors that, in isolation, should indicate, according to the article, that the level of public procurement in social services should be less than the national average. However, this does not apply.

I believe that two issues contribute to the explanation of this.

To begin with, I believe that the organization’s competencies within a subject area such as management and control of public procurement are of significantly greater importance in the choice to contract out tasks than the municipality’s finances. To a great extent, these competencies depend on the size of the municipality.

Second, I find that sliding has occurred in relation to the political wing’s openness to expose municipal tasks
to competition. Whereas exposure to competition was typically civic ideology previously, openness to try the private market as an alternative to the municipality performing the task today has reached far into the ranks of the Danish Social Democrats. This also applies within the social service area.

According to the article, in the technical area, Roskilde Municipality should contract out more tasks than the average municipality, solely because of our size. We are below the average on this point, however. I believe that the explanation is primarily that we are large enough to perform the majority of tasks effectively ourselves, as indicated in the article. However, I also believe that an aspect that comes into play is that Roskilde Municipality is not under enough financial pressure that we need to seek cost savings through public procurement in the technical area to a greater extent.

On the whole, I believe that the single most decisive factor in whether a municipality chooses public procurement in a given area is the size of the municipality. A municipality such as Roskilde has both the technically specialized competencies to be able to formulate requirement specifications professionally and to follow up with private vendors. We also have the necessary legal and contractual competencies. At the same time, the few tenders are of a size that the transaction costs are not a barrier.

Danish municipalities are very complex organizations with many and very varied tasks—and led by politicians who have very different opinions about the goals of the various areas. Therefore, it is important that the municipal council strategically consider which tasks can be performed themselves and which ones can be contracted out. One way of gaining greater knowledge of how public procurement works locally in relation to municipal task performance is to split a service area into two or more geographic areas and then let the municipality be responsible for the performance of the task in the one geographic area, while the same task is contracted out in one or more other areas.

Finally, I would point out that in the coming years, Danish municipalities will, to an increasing extent, be occupied with the innovation and knowledge transfer that can result from cooperation between the public and private sectors. There is a need for increased focus on how we, together with private vendors, can find new solutions to the challenges we face in the future instead of a one-sided focus on the lowest possible costs. Therefore, there is a need for models and knowledge of how, through various forms of cooperation, municipalities can make use of the various sectors’ special competencies as much as possible for the benefit of everyone. This would be an obvious theme for further research in this area.

A draft has just been forwarded on the public procurement act in the Folketinget (Danish parliament) that supports the possibility of closer cooperation between the public and private sectors with a view toward creating innovation. For example, this is happening by expanding access to use flexible procedures for competitive dialogue and public procurement with negotiation, which provides the possibility for more dialogue and cooperation than what is typically achieved through ordinary procedures. It is well known that in the future, the municipalities must deliver more for less money. Innovative solutions are therefore required and should consequently be followed up with a study within the near future to clarify whether the new options are being used and how they should perhaps be adjusted.

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